REPORT OF THE ANNUAL

FINANCIAL AFFAIRS

YEAR ENDED MARCH 31, 2013

KGH Kingston General Hospital Outstanding care, always™

KINGSTON GENERAL HOSPITAL
Report of the Annual Financial Affairs
For the year ended March 31, 2013

KINGSTON GENERAL HOSPITAL

Management Discussion and Analysis (unaudited)
For the year ended March 31, 2013

As management of Kingston General Hospital (KGH), we offer readers of the hospital's financial statements this narrative overview and financial analysis of the hospital operations for the fiscal year ended March 31, 2013. We encourage readers to consider the information presented here in conjunction with the audited financial statements and the accompanying notes to the statements.

It is the responsibility of management to provide appropriate information systems, procedures and controls to ensure that information is complete and reliable. This is done under the oversight of the Board of Directors and the Audit Committee of the hospital.

Overview

Kingston General Hospital (KGH) is committed to maintaining a continuous state of self-improvement. During fiscal 2013 we continued to build on the renewed fiscal foundation achieved during the previous three years, and achieved a surplus from hospital operations for the year. These operational efficiencies allowed the capacity for investment in capital expenditures to reach $15 million. Our working capital position also improved from the prior fiscal year. These achievements took a collective effort of all our programs and services. This was accomplished with not one improvement initiative, but hundreds spread across many areas of the organization.

Fiscal 2013 was the first year operating under the Ontario Government's Health System Funding Reform (HSFR), which facilitates the transition from a global based funding model to a patient-centred model where funding follows the patient and is aligned to services provided. Upon completion of the three year implementation, hospitals will receive approximately 30 percent of funding as a base allocation. The remaining 70 percent will be patient-based funding reflective of clinical groupings which consider disease, diagnosis, acuity and treatment. This funding formula will be allocated using: the Health Based Allocation Methodology (HBAM), a component of the new funding formula which aligns actual costs to expected costs (40 percent); and Quality Based Procedures (QBP's) funding which aligns to specific patient procedural activity (30 percent). For QBP's the Province stipulates both volume and price of each procedure to be completed by hospitals.

No inflationary increase for base funding was received by hospitals in fiscal 2013. KGH received a $2.1 million reduction in funding (.6%) from fiscal 2012 for the HBAM component of the funding model. The impact of the funding aligned to the QBP's was mitigated in the first year by the Province as a transitional step to introducing the funding model thus resulting in no net impact for that component to KGH in fiscal 2013.

The hospital ended the year with a total surplus of revenue over expenses of $18.9 million, including the impact of building amortization. Unplanned non-operational revenue sources contributed $7.9 million, including one-time working capital relief funding provided by the Province. Lower than budgeted operational costs accounted for approximately $5.8 million. Amortization expense savings due to delays in capital expenditures are included in the remainder.

Financial Analysis of the Hospital

Net assets represents the excess of the book value of what an organization owns (assets) less the book value of what the organization owes (liabilities).

Kingston General Hospital's total liabilities exceeded its total assets by $8.7 million at the close of the 2013 fiscal year, a decrease from the prior year level of $27.5 million.

	Unrestricted	Invested in Capital Assets	Total
Balance, beginning of year, as restated	($52,142)	$24,597	($27,545)
Excess of revenue over expenses	26,642	(7,788)	18,854
Net change in investment in capital assets	(9,251)	9,251	-
Balance, end of year	(34,751)	26,060	(8,691)

The increase in net assets during the fiscal 2013 year reflects the hospital achieving a total surplus of $18.9 million. The hospital purchased $24.3 million of capital assets during the fiscal year with $16.6 million funded through the use of deferred capital contributions.

Working Capital

The hospital has an established operating line of credit of $25 million. No draw upon this credit facility was made in fiscal 2013. The South East Local Health Integration Network (SE-LHIN) continued to support the hospital by re-providing a $40 million cash advance for fiscal 2012. On April 16, 2012, the hospital made a $12 million payment reducing the amount of this cash advance to $28 million. The SE-LHIN cash advance is repaid in the fourth quarter of each year with short-term bridge financing.

Working capital is defined as an excess of current assets over current liabilities and is a reflection of an organization's ability to meet its short term financial obligations. The hospital's total working capital surplus at March 31, 2013 was $10.1 million; an $8.3 million improvement from the previous year. It is important to note that total working capital includes cash of approximately $65 million that cannot be used for hospital operational activities as this cash is aligned to approved capital expenditures or other restricted purposes.

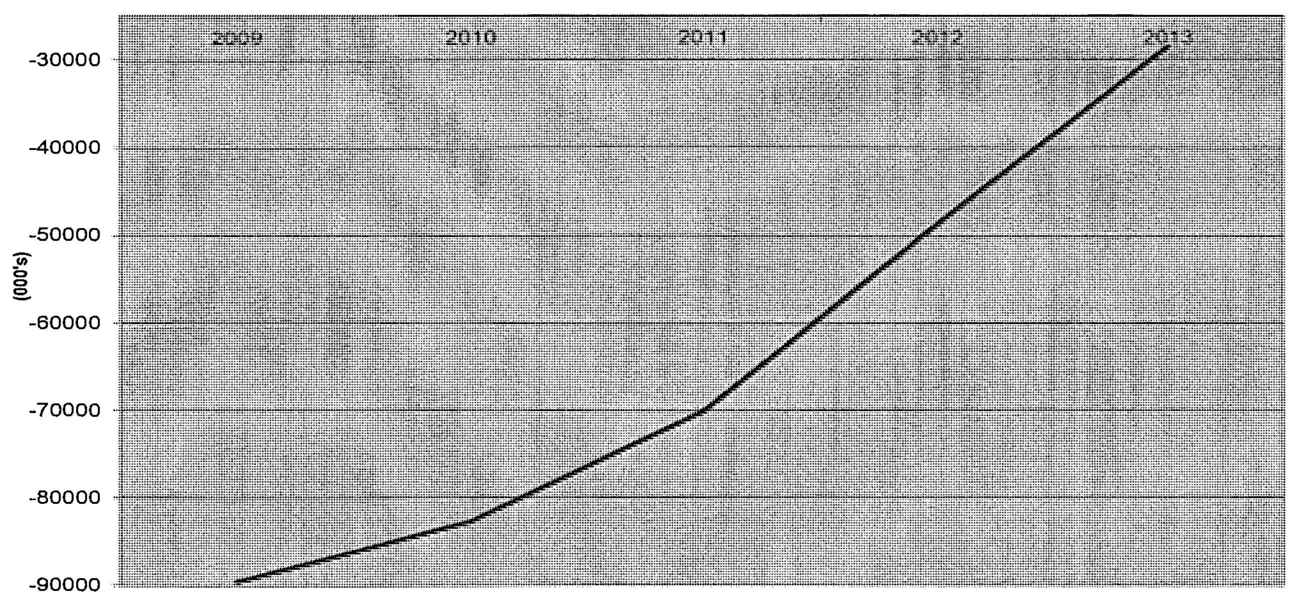
The 2010 Ontario Provincial Budget highlighted hospital working capital deficits and the existence of cash advances required by hospitals as an issue to be addressed. The 2011 Ontario Provincial Budget pledged $600 million to $800 million in additional cash flow to assist with working capital problems at the most seriously impacted hospitals. KGH did not meet the eligibility criteria for funding consideration in fiscal 2012 as it was still operating under the formal Performance Improvement Plan (PIP). Hospitals in a PIP were excluded from the process.

In Fiscal 2013 KGH received working capital deficit relief funding in the amount of $7 million from the Ministry of Health and Long-Term Care (MOHLTC) and executed the corresponding accountability agreement.

The application of this funding reduced the cash advance to $21 million at the end of the year. An equivalent amount of short-term financing was undertaken to repay the cash advance to the SE-LHIN and bridge the hospital into the start of next fiscal year. Arrangements for Fiscal 2014 were facilitated with the SE- LHIN for the hospital to receive a cash advance of $21 million to repay the bridge financing on April 15, 2013.

The hospital is eligible to receive further working capital deficit relief funding in the next two years totaling $14 million. The accountability aligned with this funding requires the hospital to balance the MOHLTC calculated adjusted working capital position by March 2017. As this calculation does not take into consideration the amount of restrictions internally imposed for approved capital expenditure, the hospital presents revised figures below to more accurately represent its working capital position. This revised working capital position improved from the fiscal 2012 position by $20 million.

Revised Cumulative Working Capital Deficit
(adjusted for internallly restricted capital expenditures)



2009 ($89.581M)
2010 ($82.713M)
2011 ($70.198M)
2012 ($48.665M)
2013 ($28.477M)

The audited Consolidated Statement of Cash Flows reflects the changes in the cash components of working capital. Changes in non-cash working capital items are detailed in note 15 of the accompanying Notes to Consolidated Financial Statements.

Long-term Debt

No new long-term debt was undertaken during the fiscal year. At the end of the year, KGH had $16.7 million in long-term debt outstanding. In March 2012 the Board proactively approved the investment of $5.7 million to fund future long-term debt liabilities due in 2016/2017. This debt relates to infrastructure investments made in 2006/2007 that did not have associated dedicated funding.

$7.8 million of long-term debt was incurred in 2012 to support an energy retro-fit project. The payments on this debt are supported by a contractual guarantee of reductions in energy costs over the 15 year amortization period of the loan. The energy savings are on target.

Investment in Capital Assets

Investing in the future of KGH so the hospital has the infrastructure, equipment and technology needed to deliver Outstanding Care, Always is a top priority. Since 2010 much effort has been undertaken in identifying and implementing operational efficiencies to not only address unfunded inflationary cost pressures but also increase the capacity for investment in capital assets. Our goal is to achieve an annual sustainable capital asset investment capacity of $20 million by fiscal 2015 to provide for timely replacement of our capital asset base.

In fiscal 2010 the annual capital budget was limited to the amount of net amortization expense (a non-cash item included in the annual operating budget) less payment requirements of its current long-term debt obligations; leaving $3 million. In 2011, the KGH Board made a strategic decision to allocate the 2011 base funding increase of $3.9 million to investment in capital expenditures. The hospital was also successful in renegotiating existing long-term debt obligations which, when added to the base funding increase, increased the annual capital budget to $9 million for 2011. In both fiscal 2012 and fiscal 2013 the hospital increased the capacity for capital expenditure (2012: $12.3 million, 2013: $15.0 million) investment by implementing operational efficiencies that permitted reallocating funds to support capital instead of operating costs. Support from the Ministry of Health and Long-Term Care and the Southeast Local Health Integration Network has assisted in addressing some of the hospital capital funding needs over the past four years. Capital investment funding is also received from the Kingston General Hospital Foundation and the Kingston General Hospital Auxiliary (refer to note 16 in the accompanying Notes to Consolidated Financial Statements).

During the fiscal year, the hospital accounted for the purchase of $24.3 million of capital assets. Expenditures were split between the following categories:

Clinical and non-clinical equipment	$ 6.3 million
Building systems and equipment	$ 5.8 million
Information management systems	$ 1.2 million
Redevelopment project/renovations	$ 11.0 million

Operating Revenues

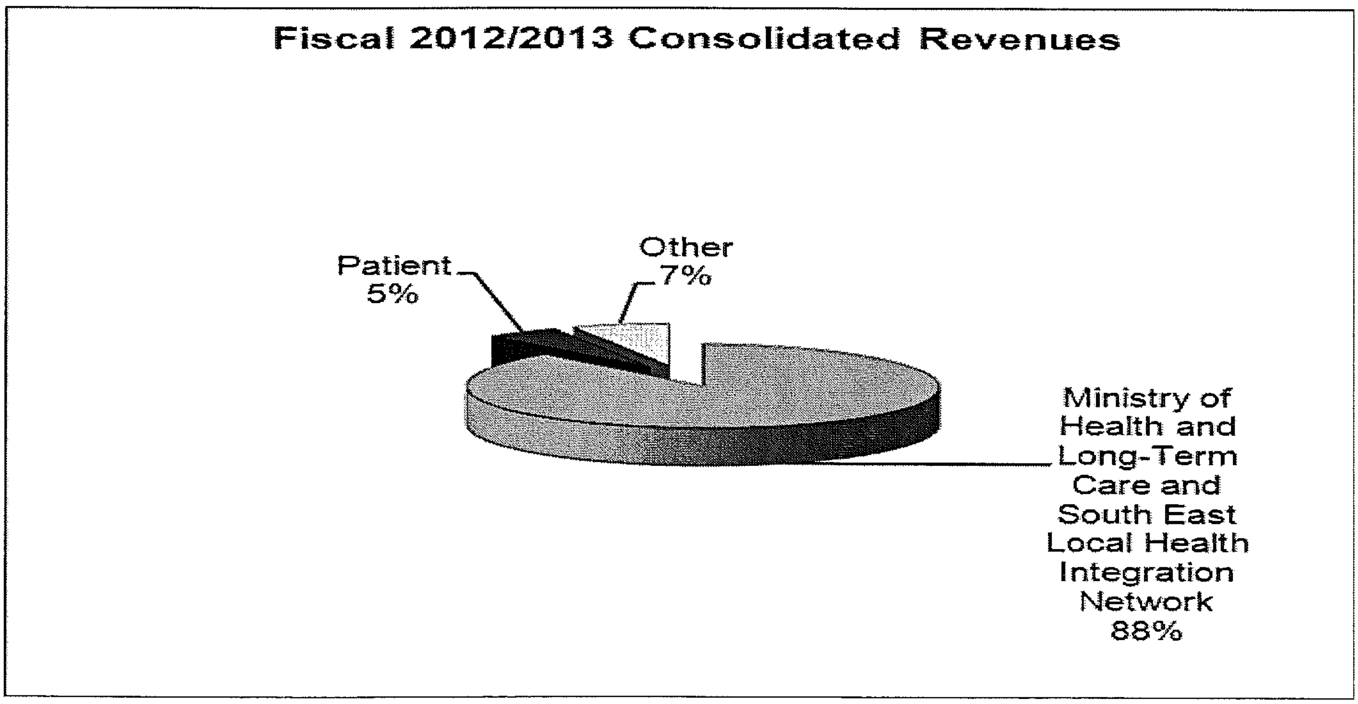
Kingston General Hospital is funded by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care and the South East Local Health Integration Network.

The hospital is required to annually execute the Hospital Services Accountability Agreement (H-SAA) with the SE-LHIN. This agreement sets out the rights and obligations of the two parties and performance expectations for the funding provided. If the hospital does not meet certain performance standards or obligations, the MOHLTC has the right to adjust some funding streams received by the Hospital.

Given that the Ministry is not required to communicate funding adjustments until after the submission of year-end data, the amount of revenue recognized in these financial statements includes management's best estimates of amounts that may become payable.

Consistent with the previous year, 88% of total operating revenue was derived from the MOHTLC/SE-LHIN in fiscal 2013. These revenue sources increased approximately $17 million or 4.5% from fiscal 2012. Included in this increase is the $7 million working capital deficit relief funding (one-time, but is expected to reoccur for two more fiscal years as part of the support to reestablish a healthy working capital position); $4.6 million of funding aligned to physician stipends and clinical education, which offsets costs incurred; and $3.2 million of funding announced in fiscal 2012 to fund increased ambulatory clinic volumes in the Cancer Centre. The remainder of the increase includes the recognition of amounts deferred from previous years and one-time funding amounts.

Revenues from the Kingston General Hospital Research Institute, which is controlled by the Kingston General Hospital, are included in the other revenue category ($1.1 million). Marketed services contributed approximately $4 million of additional other revenue and includes the revenues derived from retail services, rentals, and parking lot operations. One-time, non-recurring miscellaneous revenues contributed $1.1 million, and investment income provided approximately $900 thousand. Amortization of deferred capital grants and recoveries of services provided to parties external to the hospital contribute the balance of this revenue category.

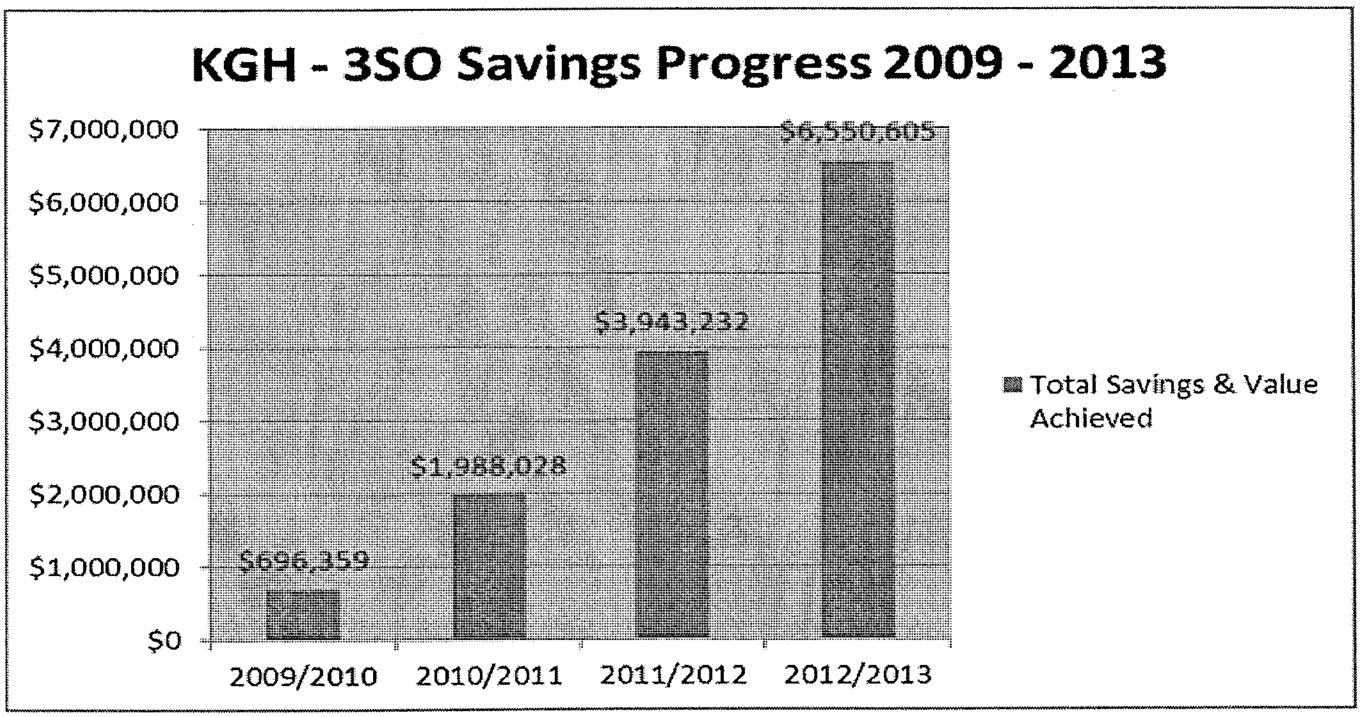


Revenues:	$000's
Ministry of Health and Long-Term Care and South East Local Health Integration Network	$393,573
Patient	22,303
Other	29,766
Total revenues	$445,642

Operating Expenditures

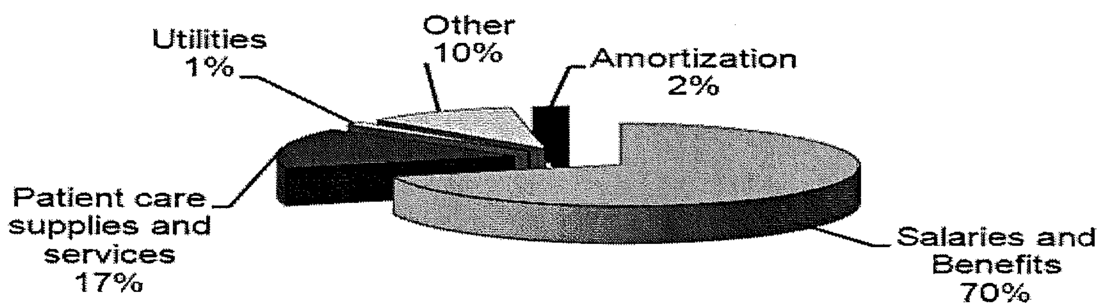
Salaries and benefits represent the most significant expenditure item at KGH. These costs accounted for 70% of total operating costs in fiscal 2013. Expenditure in this category increased approximately $14 million or 5.1% over the previous fiscal year. This increase includes the impact of inflationary increases for non-union staff and payments required under negotiated union contracts. Over 90% of KGH staff is covered under union contracts. In addition to inflationary factors, compensation costs increased aligned to funding increases provided for additional service volumes, clinical education, physician stipend payments, and some of the one-time amounts referenced above.

Patient care supplies and services represent the next largest category of expenditures accounting for 17% of total operating expenditures last year. These costs decreased approximately $800 thousand over the prior year representing a 1.2% reduction including absorbing the impact of inflationary increases in medical and surgical supplies and drug costs. Savings resulting from competitive procurement processes contributed significantly to these results. The following chart indicates the cumulative savings facilitated by Shared Support Services South Eastern Ontario (3SO) in collaboration with hospital leadership since KGH became a member of this organization.



Included in other expenditures is $2.8 million of expenses of the Kingston General Hospital Research Institute, $981 thousand interest expense, and $501 thousand bad debts expense. All other major expense categories were reduced over the prior fiscal year level.

Fiscal 2012/2013 Consolidated Expenditures



Expenditures:	$000's
Salaries and benefits	$298,288
Patient care and supplies	67,044
Utilities	5,303
Other	43,718
Amortization	9,978
Total operating expenses	$424,331

Operational Efficiency

There are two financial performance indicators included in the fiscal 2013 H-SAA. The current ratio is a measure of the organization's ability to meet its current liabilities utilizing its short term assets (the sum of cash, accounts receivable, inventory, etc.) and is calculated by dividing the total of current assets by the total of current liabilities. A current ratio less than 1.0:1 could signal issues, such as an inability to meet commitments as they come due and/or ability to meet emerging operational pressures.

The $10.1 million total working capital surplus as at March 31, 2013 translates into a current ratio of 1.10:1. The acceptable Ministry target for this ratio is between 0.8:1 and 2.0:1. However, as noted above, KGH calculates a revised working capital position and current ratio to ensure readers understand the impact of restricted assets on the hospital position.

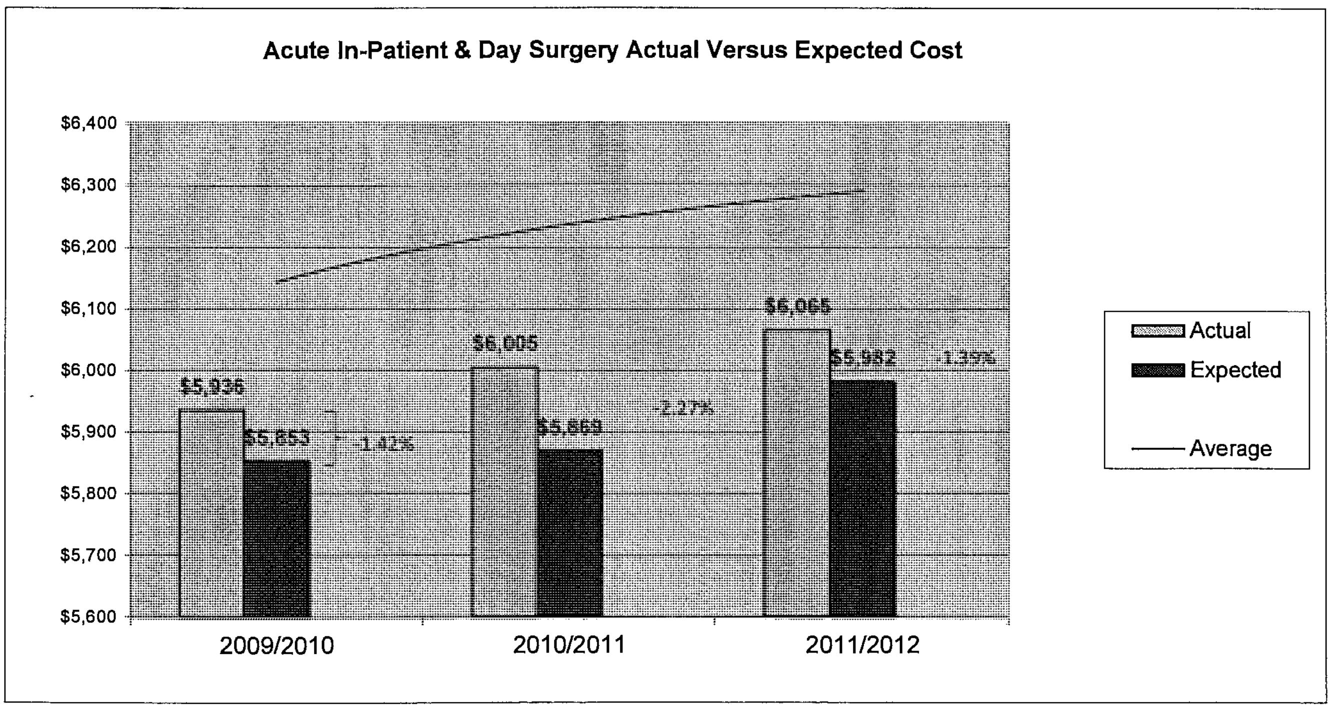
The total margin percentage is the second financial performance indicator in the fiscal 2013 H-SAA. The total margin measures total operating revenues in excess of total operating expenses. It is a measure of management's efficiency and the hospital's ability to live within available resources during a specific operating fiscal year. The total margin percentage is calculated as operating surplus/ (deficit) divided by total operating revenue. The acceptable Ministry target for this indicator is 0% - 3%.

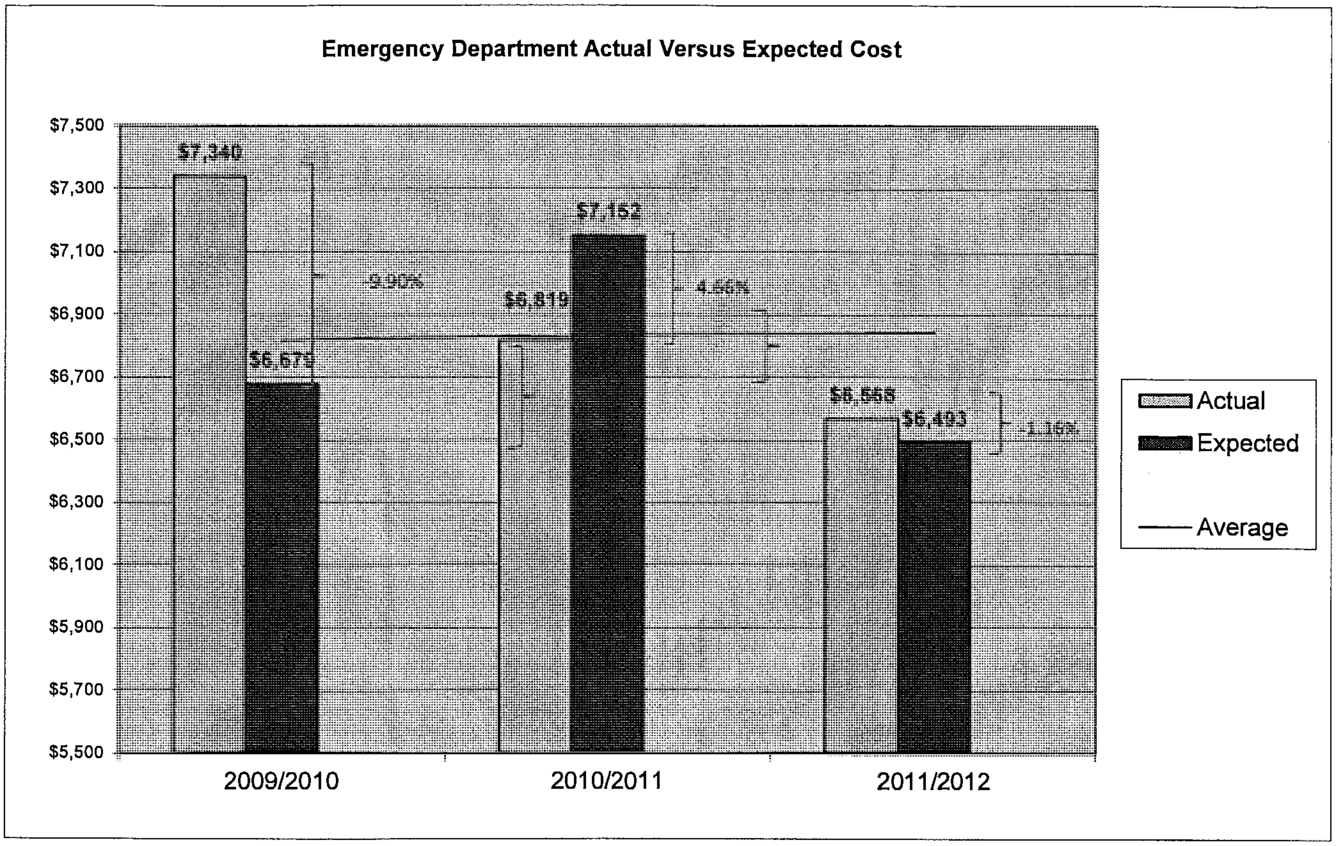
KGH's total margin at March 31, 2013 was 4.8%. The positive result for KGH this year reflects significant non-operational revenues received in the year (working capital relief funding), amortization expense savings, and operating efficiencies achieved.

The comparison between actual and expected costs has taken on increased significance as a key performance metric with the introduction of Health System Funding Reform. The following charts represent Kingston General Hospital's actual versus expected financial performance for two categories of patient based activity included in the funding model using the Health Based Allocation Methodology for the three fiscal years for which complete data is available.

For all three years represented the hospital incurred actual costs for total in-patient and day surgery cases in excess of expected costs, but below the cost of the provincial teaching hospital average. The gap between actual and expected cost was reduced in fiscal 2012 to 1.4%. We anticipate the fiscal 2013 results to reflect a further reduction based on the operational activities implemented this year. Continued analysis of HBAM information will inform further continuous improvement activities in the upcoming year.

There was a marked decrease in the costs for an emergency department case in fiscal 2011 resulting in part from utilizing the resources provided by the MOHLTC Pay-For-Results program. In fiscal 2012 actual costs exceeded expected costs by approximately 1.2% and moved below the peer average. We anticipate the trend to lowered costs to continue.





Human Resources

Healthcare is a people business; KGH relies on many team members for the delivery of outstanding care to our patients. Turning our hospital into a positive, dynamic, healthy workforce is a top priority

KGH employed a total of 3,604 individuals as at March 31, 2013. This represents a 2.4% increase over the previous year. The percentage of staff employed fulltime was 60.9%. The workforce total increases to 4,045 when including medical residents.

The increased staffing complement for hospital operations was 107 full-time equivalents (FTE's); 2013 – 2,755 FTE's, 2012 – 2,648 FTE's). Approximately 80% of the increased staffing was aligned to patient care with the remainder in administrative and support functions.

Outcomes

A key cost driver in the organization is patient activity volumes. The following highlights changes in key statistical levels over the prior year.

	2013	2012
Admissions	**21,108**	**20,927**
Ambulatory Visits	**152,107**	**152,920**
Cancer Centre Visits	**72,410**	**71,690**
Emergency Department Visits	**53,479**	**51,922**
Births	**1,974**	**2,027**
Operative Cases	**8,995**	**9,116**
Average Length of Stay	**6.5**	**6.8**

As it relates to the activity trends above the following are of note:

Admissions: Admissions have been steadily rising over the last four years. The increase in 2013 reflects a full year of operating new mental health beds transferred from Hotel Dieu Hospital (HDH) to KGH last year. As well, two additional critical care beds opened in the year.

Ambulatory Visits: Ambulatory visits are down slightly from last year due to the transfer of some clinics to the HDH in February / March 2013. The funding associated with these visits also transferred. Approximately 40,000 clinic visits will transfer to HDH next year. The clinic transfer was completed in compliance with the direction from the Health Services Restructuring Commission.

Cancer Care Center Visits: The increase in Cancer Care Center visits is aligned to additional funding received to expanded capacity in ambulatory clinics.

Emergency Department Visits: Emergency department (ED) visits have been steadily increasing over the last 3 years. The transfer of the inpatient mental health program has contributed to this increase, however, there has also been and overall increase in ED activity that was witnessed prior to the transfer. Variability in specialist availability in regional EDs has contributed to this increase at KGH as well as greater demand from our local population. Improvements in ED patient flow are ongoing and have contributed to the KGH ED being able to manage the increased throughput.

Births: Births remain stable over the prior three year period and in 2013 there is a slight drop.

Operative Cases: There has been a minor decrease in cases over the prior year related to an increase in hours per case.

Average Length of Stay: Average length of stay continues to steadily decrease. KGH is 0.7 of a day below its expected length of stay. There has been a corporate wide focus on patient flow initiatives over the last few of years. The use of continuous improvement principles has been instrumental in examining all dimensions of patient flow from admission to discharge.

2013/14

Kingston General Hospital remains dedicated to its commitment to accountability and continuous improvement of our financial health. The hospital will focus improvement efforts at all levels in the organization aligned with our strategy deliverables.

Inflationary cost pressures in compensation and operating costs, and anticipated funding reductions for year two of the HSFR model are estimated to total approximately $9 million for the next fiscal year. The hospital has already identified and begun implementing operational efficiency measures to allow it to project a balanced operating budget as it begins fiscal 2014.

We will continue our participation in Health System Funding Reform activities and perform ongoing analysis to assess gaps between actual operating costs by service activity and expected costs and use this information in our decision making and resource allocation planning. The organization will strive to identify new sources of funding to support the ongoing requirements for the replacement of equipment, infrastructure, business and clinical information systems. In Fiscal 2014 KGH will continue to employ strategies previously developed to ensure compliance with the accountabilities aligned to the working capital deficit relief funding and continue to identify opportunities to address the ongoing improvement of this position.

Summary

Fiscal 2013 marked continued improvement in the financial health of the hospital. Ongoing focus of our performance against established milestones and proactive fiscal strategies will ensure continuity of resources to meet the every changing need of our patients and healthcare community.

Financial Summary

$ millions	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Operating Results					
Revenue	445.6	429.7	406.9	391.6	365.1
Expense	(424.3)	(407.0)	(395.5)	(388.5)	(380.4)
Excess/(Deficiency) of revenue over expenses - operations	21.3	22.7	11.4	3.1	(15.3)
Building Amortization					
Revenue	16.1	7.4	3.7	3.8	3.0
Expense	(18.5)	(9.7)	(7.0)	(6.2)	(5.6)
Deficiency of revenue over expenses - building amortization	(2.4)	(2.3)	(3.3)	(2.4)	(2.6)
Total surplus (deficit) position	18.9	20.4	8.1	.7	(17.9)

J'Neene Coghlan

J'Neene Coghlan, Chief Financial Officer

Jim Flett, Chief Operating Officer

L Thompson

Leslee Thompson, President and Chief Executive Officer

KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Telefax (613) 549-6349
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Kingston General Hospital

We have audited the accompanying consolidated financial statements of Kingston General Hospital, which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statements of revenues and expenses, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, the consolidated statement of remeasurement gains and losses for the year ended March 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kingston General Hospital as at March 31, 2013, March 31, 2012 and April 1, 2011, its consolidated results of operations, consolidated changes in net assets and its consolidated cash flows for the years ended March 31, 2013 and March 31, 2012 and the consolidated remeasurement gains and losses for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 29, 2013

Kingston, Canada

KINGSTON GENERAL HOSPITAL
Consolidated Statements of Financial Position

as at March 31, 2013, March 31, 2012 and April 1, 2011
(000's)

	31-Mar-13	31-Mar-12	01-Apr-11
Assets			
Current assets			
Cash	$ 11,636	$ 23,277	$ 17,170
Restricted cash	65,472	65,740	31,117
Accounts receivable	13,988	15,108	14,983
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	8,337	6,776	8,781
Inventories	5,981	6,017	5,895
Other current assets	3,050	2,647	2,293
	108,464	119,565	80,239
Other investments (note 4)			
Restricted capital	-	-	64,081
Other	6,487	6,368	728
Investments in joint ventures (note 5)	9,710	9,501	9,344
Capital assets, net (note 6)	303,242	307,587	159,429
	$ 427,903	$ 443,021	$ 313,821
Liabilities and Net Assets			
Current liabilities			
Short term borrowings (note 9)	$ 21,000	$ 40,000	$ 40,000
Accounts payable and accrued liabilities	49,175	52,042	39,579
Accrued compensation	21,148	19,878	25,561
Note payable - KGH Auxiliary (note 16)	400	500	700
Gift annuities (note 7)	100	110	110
Agency obligations (note 8)	5,006	3,777	2,619
Current portion of long-term debt (note 9)	1,564	1,535	1,037
	98,393	117,842	109,606
Long-term debt (note 9)	15,162	16,725	10,497
Employee future benefits (note 10)	24,674	23,283	19,486
Interest rate swaps (note 9)	759	733	(136)
Deferred contributions (note 11, 12 and 13)	297,454	311,885	222,151
Net assets			
Invested in capital assets (note 6)	26,060	24,597	33,706
Unrestricted	(34,751)	(52,044)	(81,489)
	(8,691)	(27,447)	(47,783)
Accumulated remeasurement gains	152	-	-
	(8,539)	(27,447)	(47,783)
Commitments (note 14)			
Contingencies (notes 17, 18 and 19)			
	$ 427,903	$ 443,021	$ 313,821

See accompanying notes.

On behalf of the board:

Member

Member

KINGSTON GENERAL HOSPITAL
Consolidated Statements of Revenues and Expenses

for the years ended March 31, 2013 and 2012
(000's)

	31-Mar-13	31-Mar-12
Revenues		
Inpatients		
Ministry of Health and Long-Term Care and South East Local Health Integration Network	354,218	$ 338,584
Other	8,483	9,484
Outpatients	13,820	13,306
Clinical education and other programs	39,355	38,057
Marketed services	3,907	4,416
Recoveries and other revenue	18,999	18,942
Investment income	1,096	662
Research	1,117	1,128
Amortization of deferred capital contributions-major equipment	4,647	5,080
Total revenues	445,642	429,659
Expenses		
Salaries and benefits	298,288	283,843
Patient care supplies and services	67,044	67,847
Utilities	5,303	5,467
Interest	981	827
General	39,431	40,527
Research	2,805	1,575
Amortization of major equipment	9,978	10,610
Total expenses	423,830	410,696
Surplus of revenues over expenses before the undernoted items	21,812	18,963
Unrealized loss on interest rate swaps	-	(869)
Bad debts (expense) recovery	(501)	4,578
Surplus of revenues over expenses before building amortization	21,311	22,672
Amortization of deferred capital contributions-building and land improvements	16,135	7,424
Amortization of building and land improvements	(18,592)	(9,722)
Surplus of revenues over expenses	18,854	$ 20,374

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Changes in Net Assets (Deficiency)

for the years ended March 31, 2013 and 2012
(000's)

March 31, 2013		Unrestricted	Invested in Capital Assets	Total
Balance, beginning of year	$	(52,044) $	24,597 $	(27,447)
Reclassification of unrealized gains on investments due to adoption of PS 3450 (Note 3)		(98)		(98)
Balance, beginning of year, as restated		(52,142)	24,597	(27,545)
Surplus (deficiency) of expenses over revenues (note 6)		26,642	(7,788)	18,854
Net change in investment in capital assets (Note 6)		(9,251)	9,251	-
Balance, end of year	$	(34,751) $	26,060 $	(8,691)

March 31, 2012		Unrestricted	Invested in Capital Assets	Total
Balance, beginning of year (Note 22)	$	(81,489) $	33,706 $	(47,783)
Surplus of revenues over expenses(note 6)		28,202	(7,828)	20,374
Net change in investment in capital assets (Note 6)		1,281	(1,281)	-
Net change in fair value of other investments		(38)		(38)
Balance, end of year	$	(52,044) $	24,597 $	(27,447)

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Cash Flows

for the years ended March 31, 2013 and 2012
(000's)

	Total	
	31-Mar-13	31-Mar-12
Operating activities:		
Surplus of revenues over expenses	$ 18,854	$ 20,374
Add (deduct) non-cash items		
Amortization of capital assets	28,570	20,332
Amortization of deferred capital contributions	-20,782	(12,504)
Change in fair value of other investments	80	(38)
Unrealized loss/(gain) on interest rate swaps	-	869
Loss on disposition of capital assets	71	-
Change in non-cash working capital balances (note 15)	-1,186	9,075
Increase in employee future benefits	1,391	4,064
Increase (decrease) in deferred contributions	-2,874	2,378
	24,124	44,550
Capital activities:		
Purchase of capital assets	-24,296	(168,490)
Receipt of deferred capital contributions	9,225	99,860
	-15,071	(68,630)
Financing activities:		
Issuance of long-term debt	-	7,800
Repayment of long-term debt	-1,535	(1,074)
Note payable - KGH Auxiliary	-100	(200)
	-1,635	6,526
Investing activities:		
Redemption (purchase) of investments	-118	58,441
Decrease in investments in joint ventures	-209	(157)
	-327	58,284
Increase (decrease) in cash during the year	7,091	40,730
Cash, beginning of year	49,017	8,287
Cash, end of year	$ 56,108	$ 49,017

Cash, end of year is represented by:

Cash	$ 11,636	$ 23,277
Restricted cash	65,472	65,740
Short term borrowings	(21,000)	(40,000)
	$ 56,108	$ 49,017

See accompanying notes.

KINGSTON GENERAL HOSPITAL
Consolidated Statement of Remeasurement Gains and Losses

for the year ended March 31, 2013
(000's)

		31-Mar-13
Accumulated remeasurement gains, beginning of the year (note 3)	$	98
		98
Unrealized gains (losses) attributable to:		
Other Investments		
Designated Fair Value		96
Equity Instruments		(16)
Derivatives		(26)
		54
Net remeasurement gains for the year		54
Accumulated remeasurement gains, end of the year	$	152

See accompanying notes.

1. Nature of Operations

Kingston General Hospital (the "Hospital") provides a range of patient-centered programs and select specialty and complex acute care services primarily to the people of Southeastern Ontario. The Hospital also provides primary and secondary care to the population of the Kingston area and serves as a provincial resource in specific programs. The hospital supports the education and development of health care providers and advances health care services through related research activities.

The Board of Governors of the Kingston Hospital commonly referred to as "Kingston General Hospital" was incorporated under statutes of Province of Canada, Chapter 103, 1849. Kingston General Hospital is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

The Kingston General Hospital Research Institute was incorporated without share capital under the laws of the Province of Ontario in November 2010. The Kingston General Hospital Research Institute carries on or promotes medical scientific research and experimental development in conjunction with Kingston General Hospital.

On April 1, 2012, the Hospital adopted Canadian Public Sector Accounting Standards. The Hospital has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with these public sector accounting standards.

In accordance with the transitional provisions in Public Sector Accounting Standards, the Hospital has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented applying public sector accounting standards.

A summary of transitional adjustments recorded to net assets and surplus of revenues over expenses is provided in Note 22.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. The more significant accounting policies are summarized as follows:

Ministry of Health and Long-Term Care and South East Local Health Integration Network Funding

Kingston General Hospital is funded primarily by the Province of Ontario. These financial statements reflect agreed funding arrangements approved by the Ministry of Health and Long-Term Care and the South East Local Health Integration Network with respect to the year ended March 31, 2013.

Principles of Consolidation

The consolidated financial statements of Kingston General Hospital include the accounts of the Kingston General Hospital and the Kingston General Hospital Research Institute which is controlled by Kingston General Hospital. All intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

Kingston General Hospital follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions received for capital assets are deferred and amortized into revenue over the same term and on the same basis as the related capital assets.

Realized and unrealized investment income is recorded in deferred contributions to the extent there are external restrictions on the related investments. Unrestricted investment income is recognized as revenue when earned on the Consolidated Statement of Revenues and Expenses.

Revenue from the Ontario Hospital Insurance Plan, inpatient services, outpatient services, preferred accommodation, Clinical Education and other programs, marketed services and recoveries and other revenue is recognized when the goods are sold or the service is provided.

Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period. Operating Grants are recorded as revenue in the period to which they relate.

Financial Instruments

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the Consolidated Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Consolidated Statement of Revenues and Expenses.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the Consolidated Statement of Revenues and Expenses and any unrealized gain is adjusted through the Consolidated Statement of Remeasurement Gains and Losses.

When the asset is sold, the unrealized gains and losses previously recognized in the Consolidated Statement of Remeasurement Gains and Losses are reversed and recognized in the Consolidated Statement of Revenues and Expenses.

Long-term debt is recorded at cost. Interest rate swaps are recorded at fair value.

The Public Sector Accounting Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Capital Assets

Purchased capital assets are recorded at original cost. The original cost does not reflect replacement cost or market value upon liquidation. Contributed capital assets are recorded at fair value at the date of contribution. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are expensed. Betterments, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rates:

Land improvements	4% - 10%
Buildings and building service equipment	2% - 10%
Major equipment	5% - 33%

Costs of work in progress are capitalized. Amortization is not recognized until project completion.

Contributed Services

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

Investments in Joint Ventures

The Hospital accounts for its investments in joint ventures using the equity method of accounting whereby the investments are carried at cost and adjusted for any contributions or withdrawals. Its share of the net earnings or losses of the joint ventures are reported in the Hospital's Consolidated Statement of Revenues and Expenses.

Employee Benefit Plans

(a) Multi-Employer Pension Plan

Kingston General Hospital participates in a defined benefit multi-employer pension plan. The plan is accounted for on a defined contribution plan basis. Contributions to the multi-employer defined benefit plan are expensed when due. The most recent regulatory funding valuation of this multi-employer pension plan conducted as at December 31, 2011 disclosed actuarial assets of $37,758 million with accrued pension liabilities of $36,782 million, resulting in a surplus of $976 million. This filing valuation also confirmed that the plan was fully funded on a solvency basis as at December 31, 2011 based on the assumptions and methods adopted for the valuation.

(b) Accrued Post-Employment Benefits

Kingston General Hospital accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs. The most recent actuarial valuation of the benefit plans for funding purposes was as of April 1, 2011, and the next required valuation will be as of April 1, 2014.

Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees.

The average remaining service period of the active employees covered by the employee benefit plan is 15 years (2012 – 15 years). The average remaining service period for employees of other benefit plans is 9 years (2012 – 9 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

3. Change in accounting policy

On April 1, 2012, the Hospital adopted Public Accounting Standards PS 3450 – Financial Instruments and PS 2601 – Foreign Currency Translation. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

($000's)

Under PS 3450, all financial instruments, including derivatives are included on the Consolidated Statement of Financial Position and are measured either at fair value or amortized cost based on the characteristics of the instrument and the Hospital's accounting policy choices (see Note 2 – Significant Accounting Policies). In accordance with the provisions of this new standard, the Hospital reflected the following adjustments at April 1, 2012:

- a decrease of $98 to unrestricted net assets and an increase of $98 to accumulated remeasurement gains/(losses) due to the unrealized gain of the Hospital's investments previously classified as available for sale being reclassified to accumulated remeasurement gains/(losses)

4. Other Investments

	Level	31-Mar-13	31-Mar-2012	01-Apr-11
Assets at designated fair value				
Government bonds	2	3,347	3,292	24,247
Guaranteed Investment Certificate (GIC)	2	2,497	2,400	
Equity instruments, quoted in an active market				
Pooled and mutual funds	1	643	676	40,562
		6,487	6,368	64,809

There were no transfers between Level 1 and Level 2 for the years ended March 31, 2013 and 2012. There were also no transfers in or out of Level 3.

Government bonds have an interest rate of 4.0% (2012 – 4.0%) and mature in 2017. The Guaranteed Investment Certificate has an interest rate of 2.4% (2012 – 2.4%) and will mature in 2016.

5. Investments in Joint Ventures

(a) Investment in Parking Commission

Kingston General Hospital has entered into a long-term agreement, as equal partner with Queen's University at Kingston, for the operations of the Parking Commission. The principal business activities include the operation of an underground parking garage. The underground garage is currently undergoing renovations for which the capital investment required is being repaid over a twenty year period from the results of operations. Kingston General Hospital's share of the Parking Commissions' excess of revenue over expense for 2013 amounts to $331 (2012: $400) and has been included in the Consolidated Statement of Revenues and Expenses.

(b) Investment in Cogeneration Facility

Kingston General Hospital participates in a joint venture with Queen's University at Kingston for the operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen's University at Kingston and the Hospital. The purpose of the facility is to produce electricity and steam. The Hospital's capital investment in the joint venture is $9,710 (2012: $9,501). Kingston General Hospital's proportionate share of the joint venture is 40% and Queen's University at Kingston's proportionate share is 60%. Kingston General Hospital's share of the facility's excess of revenue over expense is $187 (2012: $157) and has been included in the Consolidated Statement of Revenues and Expenses.

($000's)

6. Capital Assets

Capital assets consist of the following:

	31-Mar-13	31-Mar-12	01-Apr-11
Land & land improvements	1,519	1,519	1,519
Buildings & building service equipment	396,174	375,100	193,774
Major equipment	167,206	173,728	167,776
Work in process	6,919	10,843	32,015
	571,818	561,190	395,084
Less accumulated amortization			
Land & land improvements	868	867	867
Buildings & building service equipment	129,605	111,014	101,293
Major equipment	138,103	141,722	133,495
	268,576	253,603	235,655
Net capital assets	303,242	307,587	159,429

Net assets invested in capital assets are calculated as follows:

	31-Mar-13	31-Mar-12	01-Apr-11
Balance, end of the year	303,242	307,587	159,429
Amounts financed by:			
Deferred contributions	(260,456)	(264,730)	(114,189)
Long-term debt	(16,726)	(18,260)	(11,534)
	26,060	24,597	33,706

The change in net assets invested in capital assets is as follows:

	31-Mar-13	31-Mar-12	01-Apr-11
Excess of expenses over revenues			
Amortization of deferred contributions related to capital assets	20,782	12,504	9,192
Amortization of capital assets	(28,570)	(20,332)	(18,537)
	(7,788)	(7,828)	(9,345)

	31-Mar-13	31-Mar-12	01-Apr-11
Purchase of capital assets	24,296	168,490	19,399
Amounts funded by:			
Deferred contributions	(16,580)	(163,045)	(15,174)
Long-term debt	-	(7,800)	(3,351)
Repayment of long-term debt	1,535	1,074	4,325
	9,251	(1,281)	5,199

($000's)

7. Gift Annuities

Prior to fiscal 1996, Kingston General Hospital had accepted irrevocable gifts, which were subject to the payment of a life annuity to the donor. These are recorded as a liability until the conditions of the annuity have been met, and the donation will be recorded. Government bonds have been purchased to earn income, approximately equal to the annuity obligations and have been included in other investments on the Consolidated Statement of Financial Position.

8. Agency Obligations

Kingston General Hospital acts as an agent, which holds resources and makes disbursements on behalf of the Kingston General Hospital Research Institute and various unrelated individuals or groups. Kingston General Hospital has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities not revenue and subsequent distributions are reported as decreases to this liability.

9. Long-Term Debt

	31-Mar-13	31-Mar-12	01-Apr-11
Bank term loan with interest at 4.85%, payable in monthly installments of $8 on account of principal and interest, due January 2017	709	767	822
Bank term loan with interest at 5.65%, payable in monthly installments of $39 on account of principal and interest, due June 2017	3,367	3,637	3,891
Bank term loan with interest at 4.71%, payable in monthly installments of $4 on account of principal and interest, due April 2013	4	47	89
Bank term loan with interest at 4.33%, payable in monthly installments of $54 on account of principal and interest, due February 2017	2,334	2,868	3,381
Bank term loan with floating interest, payable in monthly installments of $24 on account of principal and interest, due March 2016 (a)	2,999	3,178	3,351
Bank term loan with floating interest, payable in monthly installments of $64 on account of principal and interest, due February 2022 (b)	7,313	7,763	0
	16,726	18,260	11,534
Less current portion of long term debt	(1,564)	(1,535)	(1,037)
	15,162	16,725	10,497

The Hospital has entered into interest rate swap agreements to manage the volatility of interest rates. The maturity dates of the interest rate swaps are the same as the maturity dates of the associated long-term debt.

The fair value of the interest rate swaps at March 31, 2013 is ($759) (2012 - ($733) and 2011 - $136) which is recorded on the Consolidated Statement of Financial Position. The current year impact of the change in fair value of the interest rate swap is ($26) on the Consolidated Statement of Remeasurement Gains and Losses.

The fair value of the interest rate swaps have been determined using Level 3 of the fair value hierarchy. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(a) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of $3,351 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 3.50%.

(b) The outstanding loan amount is subject to an interest rate swap agreement on an original notional principal of $7,800 with the banker whereby the Hospital receives a floating interest rate while paying a fixed rate of 4.14%.

(c) The Hospital has also entered into a $21,000 (2012: $40,000) short term bridge loan facility at a rate of prime plus 0.50 bps. This facility is used to repay temporary operating advances made to the hospital by the Ministry of Health and Long Term Care through the South East Local Health Integration Network.

(d) The principal repayments due of long term debt for each of the five years subsequent to March 31, 2013 are as follows: 2014 - $1,562; 2015 - $1,629; 2016 - $1,703; 2017 - $1,726; and 2018 - $1,198

(e) Interest on long-term debt in the amount of $771 (2012: $559) is included in interest expense in the Consolidated Statement of Revenues and Expenses.

10. Post-Employment Benefits

Pension Plan

Substantially all of the employees of Kingston General Hospital are members of the Healthcare of Ontario Pension Plan. Contributions to the plan made during the year by Kingston General Hospital on behalf of its employees amounted to $16,425 (2012: $15,759) and is included in salaries and benefits on the Consolidated Statement of Revenues and Expenses.

Non-Pension Plans

Kingston General Hospital's post-employment benefit plans are comprised of medical, dental and life insurance coverage. The measurement date used to determine the accrued benefit obligation is March 31, 2013. The most recent actuarial valuation of the non-pension post-employment benefits plans for funding purposes was as of April 1, 2011.

($000's)

Information about the non-pension post-employment benefit plans is as follows:

	31-Mar-13	31-Mar-12	01-Apr-11
Accrued benefit obligation	28,370	26,473	20,657
Unamortized actuarial losses	(2,651)	(2,080)	
Accrued compensation	(1,045)	(1,110)	(1,171)
Employee future benefits	24,674	23,283	19,486

The expense for the year related to these plans is $2,110 (2012: $2,327) and employer contributions for these plans is $1,450 (2012: $1,336).

The significant actuarial assumptions adopted in measuring the accrued benefit obligations and expense for the post-employment benefit plans are as follows:

- Discount rate for calculation of net benefit costs of 4.0% (2012 – 4.75%).
- Discount rate to determine accrued benefit obligation for disclosure at end of period 3.75% (2012 – 4.00%).
- Dental and extended health costs in 2013 are based on actual rates. Dental cost increases are assumed to be 4.0% per annum thereafter. Extended health care costs are assumed to be 7.5% in 2013 decreasing by 0.5% per annum to an ultimate rate of 5.0% per annum.

11. Deferred Contributions Related to Operations

Deferred contributions related to operations represent grants provided for specific operating purposes that have not yet been actualized. These grants have not been taken into revenue.

	31-Mar-13	31-Mar-12	01-Apr-11
Balance, beginning of year	12,317	8,287	7,013
Less amount recognized as revenue in the year	(6,025)	(2,217)	(2,333)
Add amount received related to future periods	3,312	6,247	3,607
	9,604	12,317	8,287

12. Deferred Contributions Related to Capital Assets

Deferred contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

Externally restricted contributions and investment income related to special capital funding are included in deferred contributions related to capital assets.

($000's)

	31-Mar-13	31-Mar-12	01-Apr-11
Balance beginning of year	298,835	211,479	187,947
Additional contributions received	9,365	99,293	31,855
Additional revenue on unspent contributions	-	575	704
Unrealized gain on other investments	-	(8)	179
Less amounts related to disposal of capital assets	(140)	-	(14)
Less amounts amortized to revenue	(20,782)	(12,504)	(9,192)
	287,278	298,835	211,479

The balance of unamortized capital contributions related to capital assets consists of the following:

	31-Mar-13	31-Mar-12	01-Apr-11
Unamortized capital contributions used to purchase assets	260,456	264,730	114,189
Unspent contributions	26,822	34,105	97,290
	287,278	298,835	211,479

Included in unspent contributions is $2,174 (2012: $12,082) in special capital funding in support of redevelopment.

13. Deferred Contributions Related to Externally Restricted Funds

Deferred contributions related to externally restricted funds represent grants, donations and other revenue provided for specific restricted purposes that have not yet been actualized. These grants, donations and other revenues have not been taken into revenue.

	31-Mar-13	31-Mar-12	01-Apr-11
Balance, beginning of year	733	2,385	2,230
Less amount recognized as revenue in the year	(183)	(1,678)	(521)
Unrealized loss on other investments	-	(1)	(1)
Add amount received related to future periods	22	27	677
	572	733	2,385

($000's)

14. Commitments

Cost to complete construction in progress and major equipment purchase

The estimated commitment to complete work in progress and major equipment purchases at March 31, 2013 is approximately $8,870 (2012: $13,680).

Lease commitments

Kingston General Hospital is committed under certain operating lease agreements to minimum lease payments as follows:

	2013
Year ending March 31,	
2014	1,573
2015	654
2016	331
2017	141
2018	-
Total minimum lease payments	2,699

15. Net Change in Non-Cash Working Capital Balances Related to Operations

Net change in non-cash working capital balances related to operations consists of the following:

	2013	2012
Accounts receivable	1,120	(125)
Due from Ministry of Health and Long-Term Care and South East Local Health Integration Network	(1,561)	2,005
Inventories	36	(122)
Other current assets	(403)	(354)
Accounts payable and accrued liabilities	(2,867)	12,463
Accrued compensation	1,270	(5,950)
Notes Payable	(10)	-
Agency obligations	1,229	1,158
Net increase (decrease)	(1,186)	9,075

16. Related Entities

This section addresses disclosure requirements regarding the hospital's relationships with related entities. The relationship can be one of economic interest, significant influence, joint control or control.

(a) Kingston General Hospital Foundation/ University Hospitals Kingston Foundation

Kingston General Hospital has an economic interest in the Kingston General Hospital Foundation. The Foundation receives substantially all of its revenue from the University Hospital Kingston Foundation and receives, accumulates and distributes funds and/or the income therefrom for the benefit of Kingston

General Hospital. Kingston General Hospital Foundation is a separate corporation without share capital and with its own Board of Directors. During the year, Kingston General Hospital received $5,364 (2012: $3,967) to fund capital redevelopment, equipment purchases and special program costs.

Kingston General Hospital has an economic interest in University Hospitals Kingston Foundation (formally Kingston Hospitals Joint Advancement Foundation). The Foundation was established to raise funds for Kingston General Hospital, Providence Care Centre operating as Providence Care and the Hotel Dieu Hospital.

(b) Kingston General Hospital Auxiliary

Kingston General Hospital has an economic interest in Kingston General Hospital Auxiliary. Kingston General Hospital Auxiliary promotes and extends the interests of Kingston General Hospital throughout the city and surrounding counties. It provides volunteer auxiliary services as requested by Kingston General Hospital administration through liaison with the Director of Volunteers and the President of the organization. Kingston General Hospital Auxiliary also raises funds for Kingston General Hospital to be allocated to special gifts in a manner satisfactory to the administration of Kingston General Hospital and in harmony with the planning of the community. During the year, Kingston General Hospital Auxiliary granted $663 (2012: $813) to Kingston General Hospital to fund equipment purchases and special program costs. Kingston General Hospital holds a note payable to Kingston General Hospital Auxiliary for $400 (2012: $500) which is payable on demand.

(c) Kingston Regional Hospital Laundry Incorporated

Kingston General Hospital has significant influence in Kingston Regional Hospital Laundry Incorporated. Kingston Regional Hospital Laundry Incorporated, a Corporation incorporated under the laws of the Province of Ontario, provides laundry services, linen replacement, uniforms, dry cleaning and other related laundry services to hospitals in the Kingston region. During the year, Kingston General Hospital paid $1,997 (2012: $2,141) to Kingston Regional Hospital Laundry Incorporated for laundry services. These costs are included in general expenses on the Consolidated Statement of Revenues and Expenses.

(d) Shared Support Services South Eastern Ontario

The Hospital is a member of a group of seven hospitals within the South East Local Health Integration Network which have voluntarily agreed to enter into a joint project for the purposes of planning, development, implementation and operation of a shared regional supply chain project, consisting of procurement, warehousing, logistics and contract management activities. Shared Support Services South Eastern Ontario ("3SO"), a non-profit corporation, has been created to manage the services and provide procurement oversight on the part of the member hospitals. The project received start-up funding from the Ministry of Finance. The project implementation period commenced with the signing of a transfer payment agreement in March of 2008 and all hospitals were on-boarded by the end of January, 2012.

Each of the participating hospitals is a voting member of 3SO. Therefore, the Hospital has an economic interest, but not control, over 3SO. The assets, liabilities, net assets and results of operation of the 3SO are not included in the financial statements. During the year, Kingston General Hospital paid $2,953 (2012: $2,636) to 3SO for governance/operating costs. These costs are included in general expenses on the Consolidated Statement of Revenues and Expenses.

Kingston General Hospital has signed a ten year commitment to the project and has provided a limited guarantee to a maximum of 49.5% of a $5,000 line of credit secured by 3SO, representing the Hospital's proportionate share of $2,475. As at March 31, 2013, 3SO has drawn $1,890 (2012: $3,506) on this line of credit, of which $936 (2012: $1,735) is guaranteed by the Hospital.

17. Liability Insurance

On July 1, 1987, a group of health care organizations formed the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is registered as a Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. Subscribers pay annual premiums that are actuarially determined. Subscribers are subject to assessment for losses, if any, experienced by the pool for the years in which they were a subscriber. No assessments have been made to March 31, 2013.

Since its inception in 1987 HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income less the obligation for claims reserves and expenses and operating expenses. Each subscriber which has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors of HIROC. There are no distributions receivable from HIROC as of March 31, 2013.

18. Letters of Credit

Kingston General Hospital has outstanding letters of credit of $657 for capital construction.

19. Contingencies

Kingston General Hospital's activities are such that there are usually claims pending or in progress at any time. With respect to claims at March 31, 2013, management believes that reasonable provisions have been made in the accounts.

20. Clinical Education Program

During the year, the Hospital's Clinical Education Program incurred expenses of $30,739 (2012: $28,993) and received $30,372 (2012: $29,070) in funding from the Ministry of Health and Long-Term Care. Under the terms of the arrangement, the deficit of this funding of $367 (2012: ($77)) must be paid by the Ministry of Health and Long-Term Care, and, as such, a receivable of $367 (2012: ($77)) has been recorded as at March 31, 2013 and is included in accounts receivable.

21. Financial risks and concentration of credit risk

(a) Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to accounts receivable, and other investments.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2013 is the carrying value of these assets.

The carrying amount of accounts receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Consolidated Statement of Revenues and Expenses. Subsequent recoveries of impairment losses related to accounts receivable are credited to the Consolidated Statement of Revenues and Expenses. The balance of the allowance for doubtful accounts at March 31, 2013 is $1,094 (2012: $904).

As at March 31, 2013, $428 (2012: $1,184) of accounts receivable were past due, but not impaired.

The Hospital follows an investment policy approved by the Board of Directors. The maximum exposure to credit risk of the Hospital at March 31, 2013 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2012.

(b) Liquidity risk

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

The contractual maturities of long-term debt, and interest rate swaps are disclosed in Note 9.

There have been no significant changes to the liquidity risk exposure from 2012.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Hospital's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

- Interest rate risk:

  Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

  As at March 31, 2013, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact on the market value of bonds would approximate ($33) and $33 respectively.

  The Hospital mitigates interest rate risk on certain of its term debt through derivative financial instruments (interest rate swaps) that exchange the variable rate inherent in the term debt for a fixed rate (see Note 9). Therefore, fluctuations in market interest rates would not impact future cash flows and operations relating to the term debt.

  The Hospital's investments, including bonds, are disclosed in Note 4.

  There has been no change to the interest rate risk exposure from 2012.

($000's)

22. Transitional Adjustments

(a) Net Assets:

The following table summarizes the impact of the transition to Public Sector Accounting Standards on the Hospital's net assets as of April 1, 2011:

Net Assets:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2011	$(45,916)
Transition election to recognize all cumulative actuarial gains and losses on employee future benefits	$(1,867)
Restated, April 1, 2011	$(47,783)

In accordance with transitional provisions of Public Sector Accounting Standards, the Hospital has elected to use the exemption for employee future benefits. The Hospital has elected to recognize all cumulative actuarial gains and losses and past service costs in opening net assets.

(b) Consolidated Statement of Revenues and Expenses:

As a result of the above noted elections and the retrospective application of Public Sector Accounting Standards, the Hospital recorded the following adjustments to surplus of revenues over expenses for the year ended March 31, 2012:

Surplus of revenues over expenses:	
As previously reported under Canadian generally accepted accounting principles for the year ended March 31, 2012	$22,996
Increase to employee future benefit expense as a result of plan amendments and past service costs	$(2,622)
Restated for the year ended March 31, 2012	$20,374